



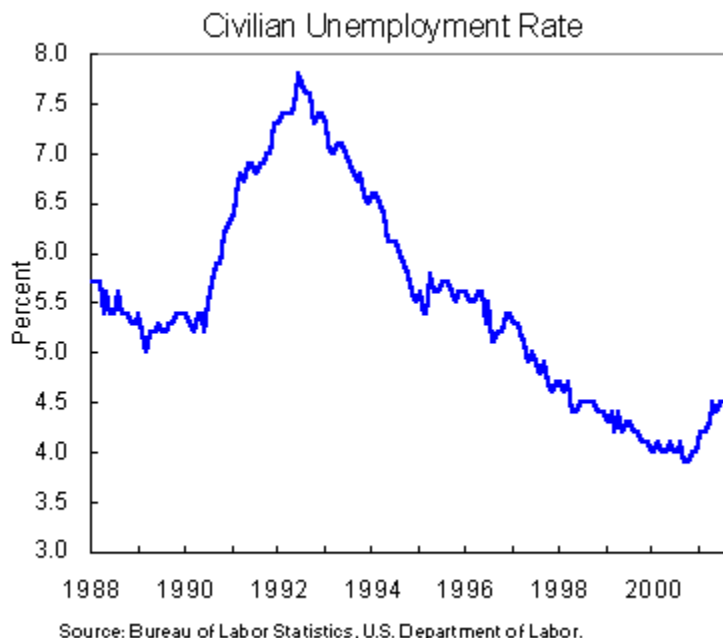
WEEKLY ECONOMIC DIGEST



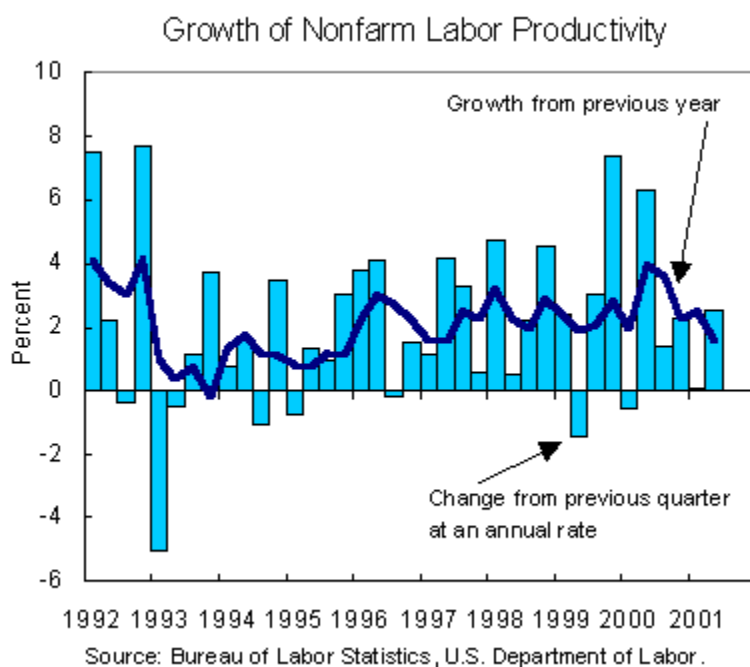
JOINT ECONOMIC COMMITTEE—DEMOCRATIC STAFF
SENATOR JACK REED (RI), VICE CHAIRMAN

August 7, 2001

Productivity Surprisingly Strong Despite Weak Labor Market



- **Employment conditions remained weak.** The unemployment rate, at 4.5 percent, was unchanged in July, while payroll employment declined by 42,000 jobs. Job losses were concentrated in durable goods manufacturing, particularly electrical equipment and industrial machinery. Service-producing industries posted marginal job gains in July.
- **Productivity rebounded.** Nonfarm business productivity (output per hour) grew at a 2.5 percent annual rate in the second quarter, up sharply from 0.1 percent (revised) in the first quarter. Output in the second quarter grew at a 0.1 percent annual rate, while hours worked fell by 2.4 percent, the largest drop since 1991. Productivity data were revised back to 1998, and now show less of a deceleration since the middle of last year than they did.
- **Real compensation per hour grew.** Real (inflation-adjusted) compensation in the nonfarm business sector grew at an annual rate of 1.6 percent in the second quarter. While still healthy, growth of real compensation so far in 2001 (1.2 percent at an annual rate) has been less than half as strong as the very robust 2.7 percent rate that prevailed in 2000.
- **The Federal Reserve has room to cut rates further.** With productivity growth substantially offsetting growth in compensation, labor costs are not putting upward pressure on prices. With labor markets weak and little inflationary pressure, the Federal Open Market Committee is likely to cut rates further at its August 21 meeting.



ECONOMY AT A GLANCE	Jul	Jun	May	Apr	2001 Qtr 2	2001 Qtr 1	2000 Qtr 4	2000 Qtr 3	2000	1999
Economic Activity										
Real GDP (% growth)					.7	1.3	1.9	1.3	4.1	4.1
Industrial Production (% growth)		-8.1	-5.8	-5.8	-5.6	-6.8	-0.9	3.5	5.6	4.2
Capacity Utilization(Level, %)		77.0	77.6	78.1	77.6	79.2	81.3	82.4	82.1	81.2
Civilian Unemployment Rate (Level, %)	4.5	4.5	4.4	4.5	4.5	4.2	4.0	4.0	4.0	4.2
Housing Starts (Thousands)		1658	1610	1626	1631	1627	1539	1505	1575	1647
Real Disposable Personal Income (% growth)		1.2	1.0	1.6	2.5	2.7	4.2	2.7	3.5	2.5
Retail Sales (% growth)*		2.8	4.6	18.1	6.1	5.2	0.5	4.6	7.6	8.2
Personal Saving Rate (Level, %)		1.1	1.2	1.3	1.2	1.1	1.0	.8	1.0	2.4
Inflation & Productivity										
CPI-U Inflation, All Items (% growth)		2.4	4.9	3.7	3.1	4.2	2.9	3.5	3.4	2.2
Core CPI-U Inflation (% growth)		3.7	1.2	2.4	2.6	3.2	2.4	2.5	2.4	2.1
Compensation per Hour (% growth)					4.1	4.5	3.6	3.6	4.4	3.5
Output per Hour (% growth)					2.5	0.1	2.3	1.4	3.0	2.3
Financial Markets										
T-Bill Rate, 3-month (Level, %)	3.5	3.5	3.6	3.9	3.7	4.8	6.0	6.0	5.8	4.6
T-Note Rate, 10-years (Level, %)	5.2	5.3	5.4	5.1	5.3	5.1	5.6	5.9	6.0	5.7
Federal Funds Rate (Level, %)	3.8	4.0	4.2	4.8	4.3	5.6	6.5	6.5	6.2	5.0
Dow Jones Industrial Avg (Index Level)	10445	10767	11105	10235	10669	10513	10586	10882	10735	10465
Sources:	Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; and, Haver Analytics.									
Notes:	Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted annual rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.									
	* Subject to revision this week.									

Major Economic News Due This Week:

- Federal Reserve's *Beige Book* [Release: Wednesday, August 8, 2001]
- Import and Export Prices, July [Release: Thursday, August 9, 2001]
- Producer Price Index, July [Release: Friday, August 10, 2001]
- Retail Sales, July [Release: Tuesday, August 14, 2001]